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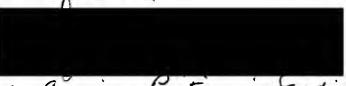


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AMERICAN POSITION IN

SAUDI ARABIA DETERIORATING

I. Indications crisis developing between SaudiGovernment and US, ARAMCO.25X1X6

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King Saud very angry with US.

In present mood, king might terminate both Dhahran Air Base Agreement and US military missions. King to be guided by Council of Ministers, which largely anti-American. (Air Base Agreement should run to 1961: can be terminated June 1956.

Any earlier termination illegal.

B. ARAMCO fears emergency soon in showdown on Onassis Agreement. Will refuse compromise on exclusive rights, despite chance shutdown and possibly nationalization.

INFORMATION ONLY Approved For Release 2000/08% CRARDP80R01443R000200370001-0 II. Increasing anti-American trend:

- A. Threat terminate military agreements

 probable insistence on Onassis Agreement

 continue series moves since Saud's

 succession (November 53).
 - Replacement American construction firm by Germans (January).
 - 2. Involvement ARAMCO in Buraimi dispute (February-June).
 - 3. Ratification Onassis Agreement (April).
 - 4. Refusal visas for French soldiers en route Indochina (May).
 - 5. Termination Point IV Agreement (June).
 - 6. Opposition (with Egypt) to Iraqi
 adherence Turkish-Pakistani Pact (June).

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- III. Prospects: No indication Saud will change.
 - A. Possible attempt abrogate Air Base

 Agreement, more likely terminate it 1956.
 - B. Terminate US military training.
 - C. Strong possibility Saud, whose advisors have stake in Onassis Agreement, will "nationalize" oil:
 - Mistaken belief can replace US technicians with Germans.
 - 2. Hope up revenue by eliminating ARAMCO profits.
 - 3. Desire enhance prestige as Arab leader by ousting Americans.
 - 4. Wish avoid loss face involved cancellation Onassis Agreement.
 - D. Nationalization attempt would make Saudi another Iran: loss most revenue would bring economic crisis, political ferment, could cause overthrow Saud and whole

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SECRET

INFORMATION ONLY (3)

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BACKGROUND

IMPORTANCE OF SAUDI PETROLEUM

I. Middle East averages some 20% of world oil production (exclusive of Soviet):

II. Saudi Arabia averages over 30% of Middle East oil production.

1950 1953

MIDDLE EAST 657 902 (million bbls)

SAUDI 200 (30%) 308 (34%)

IRAN 243 10

III. Bulk of Middle East oil goes to Europe, where it now furnishes more than 90% of Europe's total crude imports:

 1938
 1950
 1952
 1953

 23%
 85%
 94%
 (higher)